



DEFENSE CONTRACT AUDIT AGENCY
8725 JOHN J. KINGMAN ROAD, SUITE 2135
FORT BELVOIR, VA 22060-6219

IN REPLY REFER TO

6 May 1999
99-PAC-054 (R)

PAC 730.31/99-4

MEMORANDUM FOR REGIONAL DIRECTORS, DCAA
DIRECTOR, FIELD DETACHMENT, DCAA

SUBJECT: Audit Guidance on Purchase Card Transaction Costs

BACKGROUND

As part of an initiative to reduce administrative costs, many government agencies are using purchase cards to make payments for goods and services the government acquires. The purchase card most often used by Federal government agencies is the IMPAC (International Merchant Purchase Authorization Card). When a contractor accepts the government's purchase card for payment of goods and services, the contractor is charged for transaction costs, generally referred to as "merchant fees". Merchant fees include fees paid by the contractor to the contractor's bank, the credit card company (i.e., VISA or MasterCard), and the card-issuing bank for processing payment through the credit card network.

GUIDANCE

Transaction fees relating to the acceptance of purchase cards for payment for goods and services are generally allowable as a normal business expense. Auditors should not assume that these fees represent unallowable interest costs merely because the fee is usually expressed as a percentage of the amount of the transaction. FAR 31.205-20, *Interest and other financial costs*, disallows only "interest on borrowings (however represented)". The transaction fees associated with the use of the purchase card represent a charge for administrative processing, and do not represent interest on borrowings.

As long as the contractor's accounting practice is consistently applied and results in an equitable distribution of costs to contracts, purchase card transaction fees may be accounted for as either a direct charge or as an indirect charge. The basic requirement is that all costs incurred for the same purpose, in like circumstances, are either direct costs only or indirect costs only with respect to final cost objectives.

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CONCLUDING REMARKS

Please direct any questions or concerns you may have to Karen Cash, Program Manager, Accounting and Cost Principles Division, at (703) 767-3250 or DCAA-PAC@dcaa.mil.

Robert DiMucci
(for)

Lawrence P. Uhlfelder
Assistant Director
Policy and Plans

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